

DATE: 09 OCTOBER 2020

REPORT TO: EXECUTIVE MAYOR

1. ITEM NUMBER

2. SUBJECT

**SUPPLY CHAIN MANAGEMENT:
REPORT FOR THE PERIOD 1 JULY 2020 TO 30 SEPTEMBER 2020**

**VERSKAFFINGSKETTINGBESTUUR:
VERSLAG VIR DIE TYDPERK 1 JULIE 2020 TOT 30 SEPTEMBER 2020**

**ULAWULO LOBONELELO NGENKONZO YOKUTHENGA NOKUTHENGISA
IIMPAHLA ZEZIKO:
INGXELO ESUSELA KWISSITHUBA SOMHLA WOKU-1 JULAYI 2020 UKUYA
KOWAMA-30 SEPTEMBER 2020**

3. DELEGATED AUTHORITY

In terms of delegation

This report is

☐ **Committee name :**

☒ The Executive Mayor

☐ Council

4. DISCUSSION

Clause 9 of the City's Supply Chain Management Policy (SCM Policy) related to Section 117 of the Municipal Finance Management Act (MFMA). Which provides that a City Councillor may not be a member of a bid committee or any other committee evaluating or approving quotations or bids (tenders), nor may a City Councillor attend such a meeting as an observer.

However, Clause 10 of this policy mentions that Council has an oversight role to ensure that the City Manager implement the City's SCM Policy.

Clause 11 records that the Executive Mayor must provide general political guidance over the fiscal and financial affairs of the City and must monitor and oversee the

exercise of responsibilities assigned to the City Manager and Chief Financial Officer in terms of the MFMA.

In accordance with Clause 12 of our SCM Policy, the City Manager must submit quarterly reports to the Executive Mayor and, within 30 days of the end of each financial year submit a report to Council, on the implementation of this policy.

4.1. Financial Implications ☒ None ☐ Opex ☐ Capex

☐ Capex: New Projects

☐ Capex: Existing projects requiring additional funding

☐ Capex: Existing projects with no additional funding requirements

Legal Compliance ☐

4.2. Staff Implications ☐ Yes ☒ No

4.3. Risk Implications ☐ Yes ☒ No

5. RECOMMENDATIONS

IT IS RECOMMENDED THAT THE CONTENTS OF THE REPORT ENTITLED “SUPPLY CHAIN MANAGEMENT REPORT FOR THE PERIOD 1 JULY 2020 TO 30 SEPTEMBER 2020 BE NOTED.

AANBEVELING

DAAR WORD AANBEVEEL DAT DAAR KENNIS GENEEM WORD VAN DIE INHOUD VAN DIE VERSLAG GETITELD VERSKAFFINGSKETTINGBESTUUR: VERSLAG VIR DIE TYDPERK 1 JULIE 2020 TOT 30 SEPTEMBER 2020.

ISINDULULO

KUNDULULWE UKUBE MAKUQWALASELWE IZIQULATHO ZENGXELO ESIHLOKO ‘INGXELO ENGOLAWULO LOBONELELO NGEMPAHLA EKWIZIKO’ YESITHUBA ESISUSELA KWISITHUBA SOMHLA WOKU-1 JULAYI 2020 UKUYA KOWAMA-30 SEPTEMBER 2020

ANNEXURES:

ANNEXURE 1

FOR FURTHER DETAILS CONTACT

NAME	BASIL CHINASAMY	CONTACT NUMBER	021 400 3190
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DIRECTORATE	FINANCE SCM	FILE REF No	
SIGNATURE : DIRECTOR			

EXECUTIVE DIRECTOR

NAME	KEVIN JACOBY	COMMENT:
DATE		
SIGNATURE		

CITY MANAGER

NAME	LUNGELO MBANDAZAYO	COMMENT:
DATE		
SIGNATURE		

LEGAL COMPLIANCE

- ☐ REPORT COMPLIANT WITH THE PROVISIONS OF COUNCIL'S DELEGATIONS, POLICIES, BY-LAWS AND ALL LEGISLATION RELATING TO THE MATTER UNDER CONSIDERATION. ☐ NON-COMPLIANT

NAME	COMMENT:
DATE	
SIGNATURE	<div>For information.</div>

EXECUTIVE MAYOR

NAME ALD DAN PLATO

COMMENT:

DATE

SIGNATURE



ANNEXURE 1

1. STRATEGIC INTENT

- ☐ Opportunity City
- ☐ Safe City
- ☐ Caring City
- ☐ Inclusive City
- ☒ Well-run City

2. PURPOSE

Compliance with clause 12 of the City's Supply Chain Management (SCM) Policy

3. FOR NOTING BY COUNCIL

For information of Council

4. EXECUTIVE SUMMARY

This report briefly analyses the on-going implementation of the City's Supply Chain Management Policy, for oversight purposes.

4.1. Other Services Consulted

Not applicable

5. Salient Details of Supply Chain Management Activities

Major SCM activities are summarised below, for information.

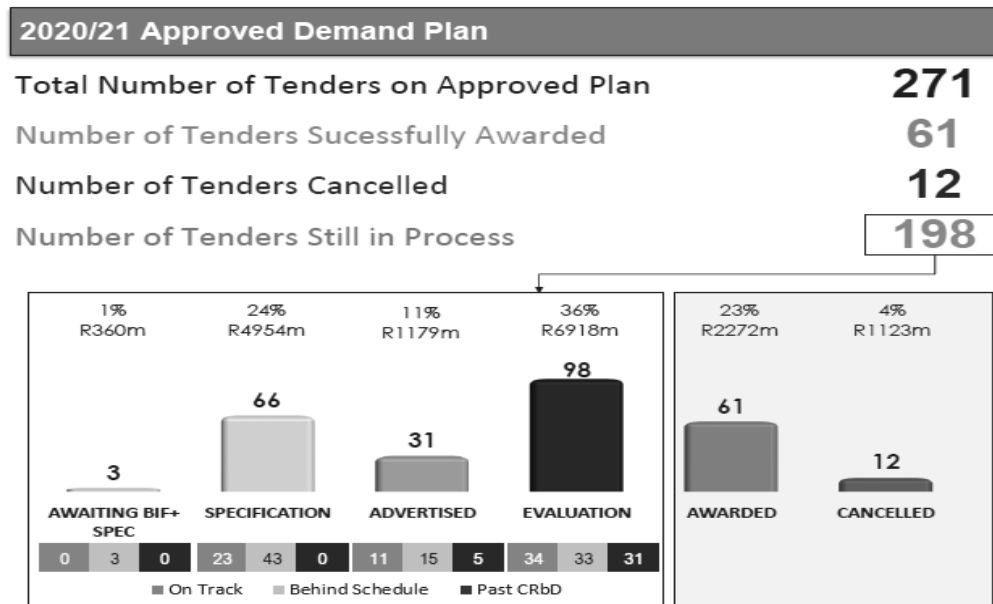
5.1 Demand and Acquisition Management

5.1.1 Implementation of the 2020/21 Demand Plan

The implementation of the 2020/21 demand plan is progressing very well. In contrast to previous financial years, specifications are mostly received timely.

The total quantum of the demand plan for this financial year is 271 tenders which are required, considerably lower than previous years (2018/19: 514; 2019/20: 394) which are attributable to more realistic planning. As per Table 01 below, 23% or 61 tenders of the total required tenders have been awarded and 12 tenders were cancelled. Cancellations are discussed in more detail later in this report.

Table 01: 2020/21 Demand Plan for Tenders



5.1.2 Tender completion rate (2020/21 Demand Plan)

The progress with the implementation as at the end of the first quarter is 27% which is ahead of the target of 20%. The Directorates which are behind this target are addressing the performance in order to bring about improvement.

Table 02 below illustrates the completion rate per Directorate.

Table 02: Tender completion rate per Directorate

Directorate	In Process	Awarded	Cancelled	Grand Total	Completion Rate
Community Services & Health	3	4	—	7	57%
Corporate Services	36	20	3	59	39%
Economic Opportunities & Asset Management	21	5	1	27	22%
Energy & Climate Change	38	7	5	50	24%
Finance	12	2	—	14	14%
Human Settlements	4	2	1	7	43%
Office of the City Manager	2	—	—	2	—
Safety & Security	4	3	1	8	50%
Spatial Planning & Environment	4	2	—	6	33%
Transport	18	9	—	27	33%
Urban Management	1	—	—	1	—
Water & Waste	55	7	1	63	13%
Grand Total	198	61	12	271	27%

5.1.3 Slippage analysis per Directorate 2021/22

The Slippage analysis indicates whether each tender is progressing through the SCM system according to plan in order to have the contract ready on time. Tenders are categorized as to whether they are on track, behind schedule or overdue [past the contract required by date (CRbD)].

As per Table 03 below, there are 36 tenders (18% of tenders) which are past their contract required by date and 94 tenders (47% of tenders) are behind schedule. The remaining 68 tenders (35%) tenders are on track to be awarded timeously.

The City Manager has issued instructions on 20 August 2020 that all tenders which are overdue or behind schedule are to be rectified. There has been an improvement in this trend since the issuance of the instruction, however there is still work to be done to address the remaining tenders. Line department have been reminded to catch-up on their tender backlogs and demand plans to avoid deviations, contract extensions and delays on projects. Reports are submitted weekly to Executive Directors.

Table 03: Slippage analysis per Directorate 2021/22

Directorate	On Track	Behind Schedule	Past CRbD	Grand Total
Community Services & Health	1	1	1	3
Corporate Services	17	14	5	36
Economic Opportunities & Asset Management	6	13	2	21
Energy & Climate Change	8	25	5	38
Finance	4	7	1	12
Human Settlements	2	1	1	4
Office of the City Manager	2	—	—	2
Safety & Security	—	1	3	4
Spatial Planning & Environment	3	1	—	4
Transport	7	8	3	18
Urban Management	1	—	—	1
Water & Waste	17	23	15	55
Grand Total	68	94	36	198

5.1.4 Cancelled tenders and analysis 2021/22

Tender cancellations are further analyzed in order to establish detailed information resulting in the cancellation and lessons learnt from such findings are shared with the Top 300 project managers during the SCM workshops and Bid Committee Chairperson's training sessions.

Table 04: Cancellations for the period July to September 2020

Reasons for Cancellation	Number	Planned award value R
No acceptable bids received	7	367 840 000
Material irregularity - PPPFA Non-compliance (13.1.d)	4	917 000 000
Total	12	1 284 840 000

5.1.5 Appeals analysis 2021/22

The City received 53 appeals in the first quarter of the year, of which 3 appeals were upheld, 31 appeals dismissed and 19 appeals are pending outcome from the Appeals Authority.

SCM is satisfied that the SCM system is sufficiently robust thereby minimising the number of successful appeals and subsequent delays in the process.

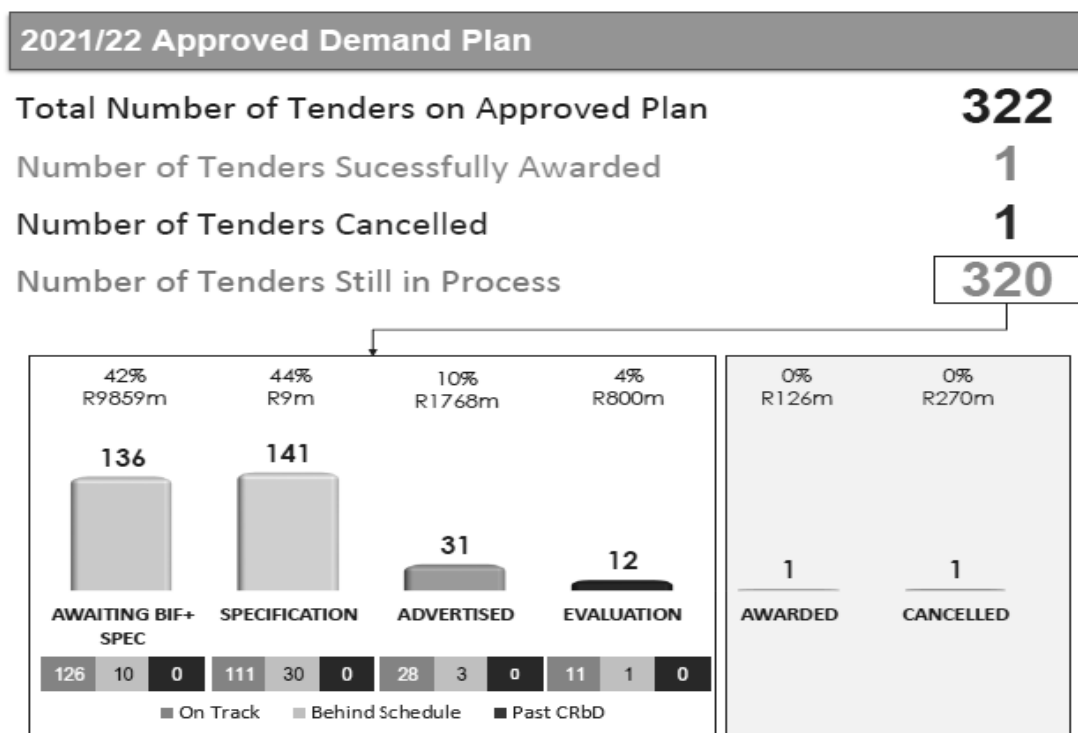
5.1.6 Implementation and update of the 2021/22 Demand Plan

The implementation of the 2021/22 demand plan is in its very early stages, however there are many tenders for this period which need to start within the current financial year in order to be awarded in time for implementation as required by the CRbD.

It is expected that meaningful progress with the awarding of these tenders will be visible in the latter half of the current financial year. The focus at this stage is therefore to ensure that specifications are received and that tenders do not drop behind schedule. At this stage there are 44 (14%) of these tenders which are behind schedule and which have been reported to the relevant Executive Directors (ED's) to be rectified. Table 05 below refers.

The total of 322 tenders required in the 2021/22 financial year is certainly achievable within the capacity of the SCM system.

Table 05: Demand Plan 2021/22



5.1.7 Strategic Sourcing (Transversal Contracts) Initiatives

The Strategic Sourcing Strategy is an initiative to reduce the number of tenders in the City for similar goods or services. The aim is to follow a single tender process for those goods and services and award to multiple suppliers in order to ensure continuity of service delivery. This strategy then also eliminates disparity in pricing and quality.

The implementation of the strategic sourcing strategy is ongoing and is gaining traction. There does appear to be a tendency to not participate in the strategic contract process when it comes to the specification and evaluation process, however this is being addressed by the CFO in the monthly CFO Collaboration meetings with Directorates.

The Demand Management unit will place more emphasis on this strategy once a newly appointed resource is assigned planned for later in the current financial year.

5.1.8 SCM Bid Adjudication Committee (SCMBAC)

The SCM Bid Adjudication Committee (SCMBAC) continues to meet weekly and remains instrumental in achieving maximum awards within a quick turn-around time. The BAC meeting is open to the public as part of good governance. The BAC has convened 13 meetings via skype for quarter one.

5.1.9 SCM Bid Committees

A total of 72 new Bid Specification Committee (BSC) and Bid Evaluation Committee (BEC) Chairperson appointments were made during quarter 1 for the various Directorates.

BSC and BEC Chairperson appointments are for a two-year period after which there should be a review and renewal by the relevant ED's. Only staff who are T-level 14 and above are appointed and only nominations accompanied by proof of the required SCM training are appointed.

A total of 904 tender offers were received during quarter 1 as per Table 06 below:

TABLE 06: Tenders offers received for the period July - September 2020

Month	Tender offers received
July 2020	128
August 2020	494
September 2020	282
Total	904

5.1.10 Procurement below R200 000

In order to procure goods or services which involves a transaction value over R2 000 and up to R200 000, written price quotations must be obtained. SCM tracks the ratio between RFQ's that have been advertised and the number of responses received in order to establish the supplier activity in our procurement processes.

For the period 1 July 2020 until 30 September 2020, a total of 3 961 RFQs were advertised on the City's website, receiving 24 566 responses to these RFQ's equating to a response ratio of 6.20 for each RFQ advertised.

Table 07: RFQ advertisements vs responses received for the period 1 July 2020 to 30 September 2020

Month	Goods			Services		
	RFQ's advertised	RFQ responses	Ratio	RFQ's advertised	RFQ responses	Ratio
July 2020	828	6 880	8.31	373	794	2.13
August 2020	816	6 376	7.81	394	1 358	3.45
September 2020	1 135	7 913	6.97	415	1 245	3.00
	2 779	21 169	7.62	1 182	3 397	2.87

Total RFQ's advertised	3 961
Total responses received	24 566
Total ratio	6.20

5.1.11 Procurement Deviations

As of 1 August 2020, the monthly report on deviations under R200 000 approved by the Director: Supply Chain Management is based on estimated hourly rates, excluding disbursements, for deviations relating to legal services procured, estimated values for deviations for the procurement of goods and services relating to strip and quote repairs of fleet (workshops) and plant and equipment and actual amounts where the amount of the transaction is known at the time of approval. All deviations above R200 000 have been submitted directly to the City Manager for approval and consideration.

Ongoing initiatives to minimize deviations include SCM engaging line departments to put formal framework agreement tenders in place through the open bidding process and prioritizing the finalization of current tenders on the demand plan and / or in the bidding process.

5.2 Supplier Development, Empowerment and Management

5.2.1 Supplier Empowerment (Community Based Suppliers)

SCM will resume its information sessions with Community Based Suppliers on how to conduct business with the City, how to register, how to submit RFQ's, the requirements for submitting City tenders and how to complete the City tender documents during quarter 2. This project is run in conjunction with the Economic and Supplier Development section by visiting the sub-councils and inviting suppliers from the CCT database also in order to provide assistance to new and emerging suppliers.

5.2.2 B-BBEE Purchase orders

Table 08 below illustrates the number of purchase orders, and their values, processed by the City for each B-BBEE status level of contributor for the period 1 July 2020 to 30 September 2020.

Table 08: B-BBEE vs PO spend for the period 1 July 2020 to 30 September 2020

B-BBEE Level	PO Count	% PO Count	Number of Vendors	% Vendors	Order Value	% Order Value
0	9 014	21.90%	638	44.40%	R1 294 044 811	25.34%
1	22 459	54.56%	628	43.70%	R2 017 710 211	39.51%
2	4 915	11.94%	190	13.22%	R984 754 506	19.28%
3	1 760	4.28%	55	3.83%	R283 193 743	5.55%
4	2 595	6.30%	159	11.06%	R328 191 668	6.43%
5	362	0.88%	11	0.77%	R59 458 184	1.16%
6	7	0.02%	3	0.21%	R17 147 454	0.34%
7	58	0.14%	8	0.56%	R103 801 137	2.03%
8	61	0.15%	11	0.77%	R18 227 752	0.36%
Grand Total	41 164	100.00%	1 437	100.00%	R5 106 529 467	100.00%

BBBEE 32 217 78.26% 1 065 74.11% R3 812 484 655.12 74.66%

The number of B-BBEE suppliers who have conducted business with the City for the quarter were 1 065 and this equates to 74.11% of the overall number of suppliers used.

A total of 32 217 purchase orders were issued to the B-BBEE suppliers which equates to 78.26% of the total of purchase orders processed and the spend is R3 812 484 655.12 which is equivalent to 74.66% of our total expenditure for this period.

5.2.3 Supplier management and support services

The City's supplier database is maintained in parallel with the National Treasury Central Supplier Database. These databases provide information on accredited suppliers capable of doing business with the City and must be maintained through stringent due diligence processes to ensure compliance to MSCMR 44 and 45.

Table 09: Supplier registration statistics for the period 1 July 2020 to 30 September 2020

Details	Number of suppliers registered
Suppliers ready to transact with the City	13 108
Central Supplier Database registered (CSD)	12 805
Total E-Procurement registered suppliers	3 293
Community Based Suppliers (CBS)	851

The National lockdown limitations resulted in the SCM unit assisting suppliers mainly with new registrations on the supplier database and CSD registrations as per statistics in Table 10 below.

Table 10: Statistics on supplier support for the period 1 July 2020 to 30 September 2020

SCM supplier support service	July 2020	Aug 2020	Sep 2020	Total
Registration assistance at Media Building	-	-	-	-
CSD updates in walk-in office	-	-	-	-
Walk-in office at Civic for E-Procurement assistance	-	-	-	-
CSD new registrations	52	45	37	134
New suppliers created	108	99	141	348

5.2.4 Due Diligence processes

Continuous due diligence reviews are being performed to ensure compliance with clauses 44 and 45 of the Municipal SCM Regulations. There have been constant enhancements of detection controls to ensure that the City does not do business with any person in service of the state. A dual verification process has further been implemented to ensure completeness of both the declaration of interest process and the family reporting note in the financial statement. The Consumer Profile Bureau reporting tool is being used to perform due diligence checks on both the staff and the suppliers. All City staff and Councilors declaration of interest are assessed for possible conflicts to the SCM system.

A family reporting register as required by clause 45 of the Municipal SCM Regulations has been published on the Tender Tracking System for review by the SCM Specialist before the award of RFQ's and Tenders. Staff non-disclosure cases are referred for each Executive Director to investigate to ensure that the declared relation does not pose a conflict to the procurement processes.

Where deemed necessary, non-performance or abuse matters are referred to Forensic Services and Legal Services for further action. Such suppliers may be reported to National Treasury in instances where the supplier has defaulted and must be restricted.

Table 11: Staff Declaration of Interest (DOI) and Private Work Applications for the period 1 July 2020 to 30 September 2020

Staff DOIs reviewed by SCM	Number
Electronic DOIs	6 186
Manual DOIs and private work applications	408

5.2.5 Supplier Performance Management

Supplier performance management is monitored on the City's internal monitoring tool namely the "Red List" which tracks information on suppliers who are not performing satisfactory or who have committed abuse of the SCM system. Poor performing suppliers are performance managed by the relevant project managers within line departments and where deemed necessary, non-performance or abuse matters are referred to Legal Services for further action. Such suppliers may be reported to the National Treasury in instances where the supplier has defaulted and must be restricted. For the first quarter, 18 matters of SCM abuse, default or poor performance have been recorded and actioned accordingly.

Table 12: Supplier Performance for the Period 1 July 2020 to 30 September 2020

Defaulting and Poor Performing Suppliers	Number
False Declaration of Interest	1
Non-delivery of goods / services	2
Poor performance	4
Repeated withdrawals from bids / RFQ's	0
Abuse of SCM system	1
Matters sent to Forensics	8
Matters sent to Legal (Restriction)	2
Matters sent to National Treasury for restriction	0
Total	18

5.3 Inventory and Stores Management

The main purpose of the Inventory and Stores Management (ISM) branch is to provide the right quality of materials at the right time and quantities to other user departments in the City. This is done to enable effective service delivery to the citizens of Cape Town. ISM strives to keep the right balance between stock levels and working capital investment.

There are currently 28 operational SAP stores in the City and 14 fuel sites. There are seven (7) stores which are temporarily closed since the beginning of the COVID-19 lockdown restriction became effective on 26 March 2020. There are 13 423 different materials and 23 055 bins maintained.

5.3.1 Comparative results

Some comparative results for the last two financial years are indicated in the tables below.

Table 13: Results for Quarter 1 - 2019/20 and 2020/21

Quarter 1	Stock value at end of quarter (R)	Average stock value during quarter (R)	Usage value during quarter (R)	Annualised stock turns	Number of transacti ons during quarter
2019/20	373 786 749	374 330 465	265 386 196	2.77	213 746
2020/21	486 729 917	459 472 773	272 500 925	2.32	142 633
% Change	30%	23%	3%	- 0.45	-33%

It should be noted that the National lockdown had a profound impact on the key performance indicators relating to inventory management especially for the quarter under review.

The quarterly comparable stock value increased by 30% (01 July 2020 to 30 September 2020 compared to 01 July 2019 to 30 September 2019). The reason for the increase was attributable to an increase in the value of stock for water meters, circuit breakers, electricity panels, switchgear, electricity relays and electricity meters. The aforementioned electricity components increased in stock values as stock was received in stores after it was procured for projects which had to be put on hold due to lockdown restrictions. In addition, COVID-19 related Protective and Personal Equipment (PPE) was procured in bulk as a means of ensuring that there was sufficient PPE to be distributed to the City's front-line staff and for when the majority of the City's employees returned to work.

The usage value increased by 3% (01 July 2020 to 30 September 2020 compared to 1 July 2019 to 30 September 2019). The reason was mainly attributable by the increase in ferric sulphate and COVID-19 related Protective and Personal Equipment (PPE) whose demand increased exponentially since the President of South Africa declared a National State of Disaster on 16 March 2020.

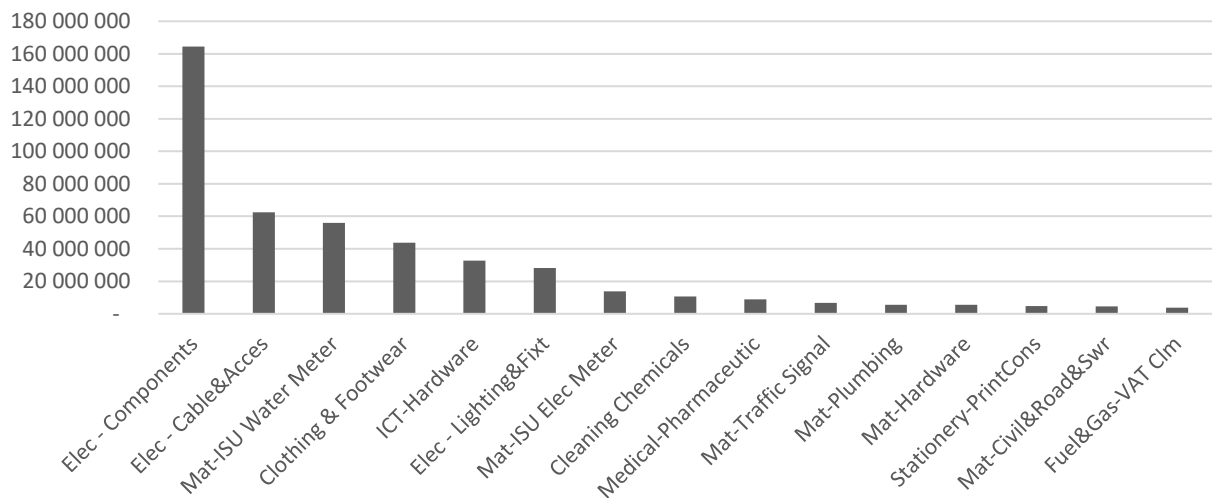
The number of inventory transactions reduced by 33% (01 July 2020 to 30 September 2020 compared to 01 July 2019 to 30 September 2019) due to the effect of the lockdown as most staff have been working from home and thus not requiring consumable supplies from the store. The reduction could also be attributable to a financial prudent approach by City officials since the beginning of the global pandemic.

Due to the aforementioned and profound ripple effect of the lockdown, the quarterly comparable stock turn reduced by 0.45. This resulted in an unfavourable stock turn of 2.32 against a target of 3.5. It should be noted that at the beginning of the current first quarter of the financial year 2020/21 the stock turn was 1.97.

5.3.2 Top 15 Stores and Material Groups

The graph indicates the relative importance of the top 15 material groups in terms of rand value at the end of the first quarter of 2020/21.

Graph 01: Top 15 Material Groups value as at 30 September 2020



5.4 Supply Chain Management Overall

5.4.1 Risk Management

The SCM risk register and mitigating plans are reviewed on an ongoing basis. SCM is satisfied that known risks are being adequately managed and monitored.

5.4.2 Disposal Management

The disposal unit was affected by the lockdown and the administration had to implement alternate methods of disposal as visitors were not permitted to attend an auction in person.

Our contract with the auctioneers included the option to auction goods via electronic auction (internet based). This option was explored and implemented with resounding success.

The disposal unit has generated R14 665 615.89 revenue in the first quarter as per the table below.

Table 14: Income Generated

Disposal of movable assets	R 13 800 811.54
Disposal of scrap metals	841 690.26
Disposal of waste paper	7 800.34
Disposal of oils	15 313.75
Total	R 14 665 615.89

5.4.3 SCM Capacitation and Development

The SCM business improvement strategy, which focus is to provide and effective and efficient SCM service to the City, *inter alia*, provides for the staffing of the SCM unit with suitably qualified and experienced employees.

For the quarter, the SCM department made 4 appointments. These appointments include:

- 1 Senior Professional Officer
- 1 Professional Officer
- 2 Specialist Clerks

21 EPWP workers were appointed in July 2020.

The SCM staff establishment was reduced in line with budgetary requirements of the City and subsequently has 350 approved positions of which 319 is filled leaving 31 vacancies.

5.4.4 SCM Audit Action Plan

All SCM audit action plan activities have been concluded at the end of the quarter under review.

5.4.5 COVID-19 impacts on SCM operations and business continuity measures

The SCM unit continued to support the City with the critical needs in response to the pandemic. All requirements were managed in consultation with the City's Occupational Health and Safety department who based its response plan on World Health Organisation guidelines. A number of directives were issued to internal directorates to ensure proper inventory management and SCM is monitoring the usage hereof including producing weekly reporting.

Reporting for procurement in terms of the National State of Emergency requirements were provided to the Provincial Treasury on a regular basis and published on the City's website for disclosure purposes.

Two reports on COVID-19 Procurement of PPE and Other Goods & Services have been published and is available publicly on the SCM Website.

FOR FURTHER DETAILS, CONTACT:

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File Ref No	